REMARKS

Claim 1 has been amended. Claims 104-108 have been added as new claims. Claims 91-102 have been canceled. Support for the new and amended claims can be found throughout the specification as originally filed. Upon entry of the amendment, claims 1-90 and 103-108 will be pending.

Section 101 Rejections

In the Office Action, method claims 1-92 and 103 stand rejected under 35 U.S.C. § 101 because the claims are purportedly directed to non-statutory subject matter. Applicants submit that the claims, as amended, recite patent eligible subject matter under § 101 because they are tied to a particular machine, i.e., a computer system comprising a memory and a database. *See In re Bilski*, 545 F.3d 943, 88 USPQ 2d 1385, 1391 (Fed. Cir. 2008) (en banc) ("A claimed process is surely patent eligible under § 101 if…it is tied to a particular machine or apparatus..."). Further, the amended claims do not pre-empt a fundamental principle because they are limited to processes involving the recited computer system. *See id.* at 1391 ("claimed process involving a fundamental principle that uses a particular machine or apparatus would not pre-empt uses of the principle that do not also use the specified machine or apparatus in the manner claimed"). Therefore, applicants submit that the claims are patent-eligible under § 101.

Section 103 Rejections

In the Office Action, claims 1-92 and 103 stand rejected under 35 U.S.C. § 103(a) as being obvious in view of a proposed combination of: (1) U.S. patent No. 7,249,083 to Noraev, et al; (2) U.S. patent application Pub. No. 2003/0110107 to Hiatt, Jr., et al.; and (3) an article entitled "Premiums on Convertible Bonds" by Weil, et al.

As amended, claim 1 is directed to a method of forming an integrated aggregate transaction involving a convertible debt component and a convertible debt hedge. The steps of claim 1 comprise (1) determining a price for a convertible debt component, wherein the convertible debt component is integrated with a convertible debt hedge and (2) determining a table of strike prices of a derivative contract included in the convertible debt hedge.

The cited references do not render claim 1 obvious because they fail to teach or suggest at least three elements of claim 1. **First,** the cited references do not disclose a convertible debt component that is "integrated with a convertible debt hedge entered into by the issuer with a counterparty to form an integrated aggregate transaction." **Second,** the cited references do not disclose an integrated transaction where "terms of an anti-dilution provision of said convertible debt hedge match terms of an anti-dilution provision of said convertible debt component." These points are addressed in order below. **Third,** the cited references do not disclose "determining…a table of strike prices for a derivative contract included in said convertible debt hedge, wherein the table includes strike prices at a plurality of different times from issuance of the convertible debt component to maturity of the derivative contract."

First, the cited references do not disclose a convertible debt component that is "integrated with a convertible debt hedge entered into by the issuer with a counterparty to form an integrated aggregate transaction." In the Office Action, the Office cites column 4, lines 9-35 and column 5, lines 7-20 of Noreav for this element of claim 1. *See* Office Action at pg. 4. Noreav does not create a transaction where the convertible debt hedge is integrated with the convertible debt component, but rather links a convertible bond to a callspread option. As disclosed in column 4, lines 9-35 and column 5, lines 7-20 of Noreav:

> …a convertible bond is linked to a callspread option structured to increase the effective conversion price of a convertible bond issuer. The callspread option is financed by a stream of periodic payments from the Issuer to the option Seller. The option further comprises a "walk-away" (cancellation) provision in which the purchaser of the callspread can choose to dissolve it at any time prior to exercise. Upon elective cancellation by the callspread buyer, the remaining periodic payment obligations are also dissolved.
>
> A second arrangement involves a convertible bond or other equity-linked security linked to a callspread option structured to decrease the effective conversion price for a convertible bond investor. The callspread option is similarly financed by a stream of periodic payments from the Investor to the option Seller. Again, the option further comprises a cancellation provision by the Investor that dissolves the option at any time prior to exercise and eliminates the remaining periodic payment obligations.

> ...the Holder of a convertible bond may surrender the bond coupon payments to the callspread option Seller, in lieu of periodic payments, in exchange for a lower effective conversion price for the bond...
>
> ...the present invention is directed to a novel investment vehicle for increasing the flexibility of select convertible bonds and other equity-linked securities. <u>The inventive investment is best illustrated as the coupling of a convertible bond with a callspread option corresponding to the same underlying asset</u>. The payment for the callspread option...is spread over a select time period and permits exchange rights based on events that accrue within the pre-selected time span. This innovative investment provides the purchaser the flexibility of canceling the investment and avoiding any future payments at any point in time...

(emphasis added).

Noreav does not disclose a convertible debt component that is "integrated with a convertible debt hedge entered into by the issuer with a counterparty to form an integrated aggregate transaction," as a convertible debt hedge is never used in Noraev. Rather, Noreav discloses "the coupling of a convertible bond with a callspread option." Regardless of the fact that Noreav does not disclose a convertible debt hedge, additionally, Noreav does not disclose integrating the convertible debt component and the convertible debt hedge to form an integrated aggregate transaction. An integrated transaction is a transaction in which terms of the convertible debt component match terms of the convertible debt hedge. For example, as recited in claim 1, "terms of an anti-dilution provision of said convertible debt hedge match terms of an anti-dilution provision of said convertible debt component." Clearly, no part of column 4, lines 9-35 and column 5, lines 7-20 of Noreav, nor any other portion of Noreav, discloses a convertible debt component that is "integrated with a convertible debt hedge entered into by the issuer with a counterparty to form an integrated aggregate transaction," as disclosed in claim 1. Further, none of the cited references, nor any combination of the cited references, cures the defects of Noreav.

<u>**Second,**</u> the cited references do not disclose an integrated transaction where "terms of an anti-dilution provision of said convertible debt hedge match terms of an anti-dilution provision of said convertible debt component." The Office cites page 446, number 4 of Weil as disclosing

this element of claim 1. Page 446, number 4 of Weil simply recites anti-dilution clauses as being one of the determinates of the premium of a convertible bond. As disclosed on pages 445-46 of Weil:

> ...The difference between the market price of the bond and its conversion parity is usually called the premium...the objective of this study is to ascertain the degree to which observed premiums can be explained or predicted from obtainable data...
>
> As we interpret the literature, the premium may be explained by the following factors...
>
> 4. Anti-dilution clauses. Kaplan [1965] points out that CBs do not have uniform anti-dilution clauses. Among the many ways in which the CB holders' interest may be diluted and his security cheapened are:
>
> a. the sale of common stock below market price,
>
> b. the payment of stock dividends...,
>
> c. the distribution of "capital" in the form of large dividends or partially liquidating dividends, and
>
> d. the issuance of options, rights, warrants, or other convertible securities.
>
> To protect the bondholder, various anti-dilution clauses are usually provided. Kaplan reports a surprising variance in these provisions. All modern convertibles include provisions for stock splits and stock dividends above some small percentage, but the provisions for the more subtle forms of potential dilution vary greatly. Consequently, the premium should reflect the strength and coverage of the anti-dilution clause.

Weil does not disclose an integrated transaction where "terms of an anti-dilution provision of said convertible debt hedge match terms of an anti-dilution provision of said convertible debt component." In particular, Weil does not disclose matching any terms of a convertible debt hedge, as Weil does not even disclose a debt hedge. Clearly, no part of page 446, number 4 of Weil, nor any other portion of Weil, discloses an integrated transaction where "terms of an anti-dilution provision of said convertible debt hedge match terms of an anti-dilution provision of

said convertible debt component," as recited in claim 1. Further, none of the cited references, nor any combination of the cited references, cures the defects of Weil.

Third, the cited references do not disclose "determining...a table of strike prices for a derivative contract included in said convertible debt hedge, wherein the table includes strike prices at a plurality of different times from issuance of the convertible debt component to maturity of the derivative contract." Noraev does not disclose determining any tables at all. Weil discloses tables related to calculated bond premiums, but does not disclose determining a table of strike prices. Hiatt discloses tables regarding strike prices, but does not disclose a table that "includes strike prices at a plurality of different times from issuance of the convertible debt component to maturity of the derivative contract." Figure 2 of Hiatt discloses tables of pre-determined strike prices for standard option contracts. Figure 2 of Hiatt clearly does not disclose "determining...a table of strike prices for a derivative contract included in said convertible debt hedge." Figure 3 of Hiatt discloses tables of delayed start option strike prices, but only one price for each delayed start option is determined and displayed as each delayed start option has its strike price determined only once, for example three months prior to its expiration date. Figure 3 of Hiatt clearly does not disclose a table that "includes strike prices at a plurality of different times from issuance of the convertible debt component to maturity of the derivative contract." As stated above, none the cited references disclose "determining...a table of strike prices for a derivative contract included in said convertible debt hedge, wherein the table includes strike prices at a plurality of different times from issuance of the convertible debt component to maturity of the derivative contract."

For at least these reasons, claim 1 is not obvious in view of the cited references. In addition, claims 2-90 and 103-106 are not obvious in view of their dependence from claim 1. Independent claims 107 and 108 are similar to claim 1. The only difference between claim 1 and claims 107 and 108 are the terms of the convertible debt hedge which are matched to the terms of the convertible debt component. Claim 107 matches a consequence of merger provision of the convertible debt hedge with a consequence of merger provision of the convertible debt component. Claim 108 matches a concentrative event provision of the convertible debt hedge with a concentrative event provision of the convertible debt component. As stated above, Weil

does not disclose matching any terms of a convertible debt hedge, as Weil does not even disclose a debt hedge. For at least these reasons, applicants submit that independent claims 107 and 108 are not obvious in view of the cited references.

CONCLUSION

Applicants respectfully submit that all of the claims presented in the present application are in condition for allowance. Applicants' present Response should not in any way be taken as acquiescence to any of the specific assertions, statements, etc., presented in the Office Action not explicitly addressed herein. Applicants reserve the right to specifically address all such assertions and statements in subsequent responses. Applicants also reserve the right to seek claims of a broader or different scope in a continuation application.

Applicants have made a diligent effort to properly respond to the Office Action and believe that the claims are in condition for allowance. If the Examiner has any remaining concerns, the Examiner is invited to contact the undersigned at the telephone number set forth below so that such concerns may be expeditiously addressed.

Respectfully submitted,

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